



**VILLAGE OF DRYDEN
LAPEER COUNTY, MICHIGAN**

44-3040

AUDITED FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
FEBRUARY 29, 2004**

VILLAGE OFFICIALS

President:	Patrick Betcher
Clerk:	Janine Souther
Treasurer:	Janice Kent
Council:	Eugene Miller Ken Hopp David Nash Jeff Nash Linda Pakkala Jim Lukas

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

RECEIVED
DEPT. OF TREASURY

FEB 15 2005

2/10

LOCAL AUDIT & FINANCE DIV.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Village of Dryden		County Lapeer
Audit Date 2/29/04	Opinion Date 12/13/04	Date Accountant Report Submitted to State: 2/9/05		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Andrews Hooper & Pavlik P.L.C.			
Street Address 3201 University Drive	City Auburn Hills	State MI	ZIP 48326
Accountant Signature <i>Rogn Hatchcock CPA</i>		Date 2/9/05	

**VILLAGE OF DRYDEN
LAPEER COUNTY, MICHIGAN**

TABLE OF CONTENTS

	<u>Page</u>
REPORT OF INDEPENDENT AUDITORS	1
GENERAL PURPOSE FINANCIAL STATEMENTS	
Combined Balance Sheet – All Fund Types and Account Groups	2
Combined Statement of Revenues, Expenditures and Changes in Fund Balances – All Governmental Fund Types	3
Combined Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General and Special Revenue Fund Types	4
Combined Statement of Revenues, Expenses and Changes in Retained Earnings - Proprietary Fund Type and Similar Trust Fund Type	5
Combined Statement of Cash Flows – Proprietary Fund Type and Similar Trust Fund Type	6
Notes to the Financial Statements	8
SUPPLEMENTAL INFORMATION	
Combined Balance Sheet – All Special Revenue Funds	22
Combined Statement of Revenues, Expenditures and Changes in Fund Balances – All Special Revenue Funds	23



ANDREWS HOOPER & PAVLIK P.L.C.
Certified Public Accountants

REPORT OF INDEPENDENT AUDITORS

To the Village Officials
Village of Dryden
Lapeer County
Dryden, Michigan 48428

We have audited the accompanying general purpose financial statements of the Village of Dryden, Lapeer, Michigan, as of and for the year ended February 29, 2004, as listed in the table of contents. These general purpose financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Village of Dryden, Lapeer County, Michigan, as of February 29, 2004, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combined and individual fund and account group financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the Village of Dryden, Lapeer County, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

Andrews Hooper & Pavlik P.L.C.

Auburn Hills, Michigan
December 13, 2004

VILLAGE OF DRYDEN

COMBINED BALANCE SHEET ALL FUND TYPES AND ACCOUNT GROUPS February 29, 2004

	Governmental Fund Types		Proprietary Fund Type	Fund Type Trust and Agency	Account Group		Total (Memorandum Only)
	General	Special Revenue			General Fixed Assets		
ASSETS							
Cash	\$ 183,769	\$ 524,292	\$ 360,231	\$ 67,215			\$ 1,135,507
Receivables							
Accounts			66,824				66,824
Due from other funds	63,458		6,660				70,118
Due from other governments	43,148	164,695					207,843
Land and improvements			16,700		\$ 750		17,450
Buildings			11,795		137,178		148,973
Equipment			15,350		252,493		267,843
Water and sewer systems			4,321,013				4,321,013
Accumulated depreciation			(1,013,846)				(1,013,846)
Deferred charges			43,779				43,779
Total assets	\$ 290,375	\$ 688,987	\$ 3,828,506	\$ 67,215	\$ 390,421		\$ 5,265,504
LIABILITIES							
Accounts payable	\$ 11,683	\$ 4,891	\$ 1,239				\$ 17,813
Due to other funds	6,660	42,149	21,309				70,118
Accrued payroll	9,504	749	900				11,153
Accrued interest			42,209				42,209
Deferred income			5,253				5,253
Land contract payable			6,004				6,004
Bonds payable			1,981,507				1,981,507
Total liabilities	27,847	47,789	2,058,421				2,134,057
FUND EQUITY							
Contributed capital			1,709,570				1,709,570
Investment in general fixed assets			60,515		\$ 390,421		390,421
Retained earnings							60,515
Fund balances							
Unreserved	262,528	641,198		\$ 67,215			970,941
Total fund equity	262,528	641,198	1,770,085	67,215	390,421		3,131,447
Total Liabilities and Fund Equity	\$ 290,375	\$ 688,987	\$ 3,828,506	\$ 67,215	\$ 390,421		\$ 5,265,504

VILLAGE OF DRYDEN

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES ALL GOVERNMENTAL FUND TYPES For the year ended February 29, 2004

	Governmental Fund Types		Total (Memorandum Only)
	General	Special Revenue	
REVENUES			
Taxes and special assessments	\$ 150,418	\$ 149,654	\$ 300,072
State grants	76,385	52,466	128,851
Licenses, permits, fees		2,600	2,600
Charges for services	2,338		2,338
Interest	1,147	4,955	6,102
Rentals	2,275		2,275
Other revenue	18,178	9,607	27,785
Total revenue	<u>250,741</u>	<u>219,282</u>	<u>470,023</u>
EXPENDITURES			
Current			
Legislative	8,898		8,898
General government	86,510	85,096	171,606
Public works	74,337	79,648	153,985
Capital outlay		4,217	4,217
Total expenditures	<u>169,745</u>	<u>168,961</u>	<u>338,706</u>
Excess of revenues over expenditures	<u>80,996</u>	<u>50,321</u>	<u>131,317</u>
OTHER FINANCING SOURCES (USES)			
Operating transfers in			
Operating transfers out		(25,000)	(25,000)
Total other financing sources (uses)		<u>(25,000)</u>	<u>(25,000)</u>
Excess of revenues and other sources over expenditures and other uses	80,996	25,321	106,317
Fund balances - beginning of year	<u>181,532</u>	<u>615,877</u>	<u>797,409</u>
Fund balances - end of year	<u>\$ 262,528</u>	<u>\$ 641,198</u>	<u>\$ 903,726</u>

The accompanying notes are an integral part of the financial statements

VILLAGE OF DRYDEN

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUND TYPES

For the year ended February 29, 2004

	General Fund			Special Revenue Funds		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Taxes and special assessments	\$ 126,000	\$ 150,418	\$ 24,418	\$ 126,599	\$ 149,654	\$ 23,055
State grants	68,000	76,385	8,385	40,250	52,466	12,216
Licenses, permits, fees				6,000	2,600	(3,400)
Charges for services	2,550	2,338	(212)			
Interest	2,000	1,147	(853)	9,000	4,955	(4,045)
Rentals	350	2,275	1,925			
Refunds and rebates						
Other revenue	1,000	18,178	17,178	700	9,607	8,907
Total revenue	199,900	250,741	50,841	182,549	219,282	36,733
EXPENDITURES						
Current						
Legislative	8,000	8,898	(898)			
General government	74,650	86,510	(11,860)	191,721	85,096	106,625
Public safety	2,000		2,000			
Public works	60,000	74,337	(14,337)	69,150	79,648	(10,498)
Recreation and cultural	250		250	261,722	4,217	257,505
Capital outlay						
Total expenditures	144,900	169,745	(24,845)	522,593	168,961	353,632
Excess of revenues over expenditures	55,000	80,996	25,995	(340,044)	50,321	390,365
OTHER FINANCING SOURCES (USES)						
Operating transfers in	(55,000)		55,000	7,000	(25,000)	7,000
Operating transfers out	(55,000)		55,000	7,000	(25,000)	(18,000)
Total other financing sources (uses)						
Excess of revenues and other sources over (under) expenditures and other uses		80,996	80,996	(333,044)	25,321	358,364
Fund balances - beginning of year	181,532	181,532		615,877	615,877	
Fund balances - end of year	\$ 181,532	\$ 262,528	\$ 80,996	\$ 282,833	\$ 641,198	\$ 358,364

The accompanying notes are an integral part of the financial statements.

VILLAGE OF DRYDEN

COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS PROPRIETARY FUND TYPE AND SIMILAR TRUST FUND TYPE For the year ended February 29, 2004

	Proprietary Fund Type	Fiduciary Fund Type	Total (Memorandum Only)
	Enterprise	Non-Expendable Trust Fund	
OPERATING REVENUE			
Charges for services	\$ 178,160		\$ 178,160
Tap-in fees	26,668		26,668
Other operating revenues	84,812	\$ 2,600	87,412
Total revenue	289,640	2,600	292,240
OPERATING EXPENSES			
Personnel services	39,756		39,756
Contractual services	24,165		24,165
Supplies	8,841		8,841
Utilities	5,824		5,824
Depreciation	86,174		86,174
Amortization of deferred charges	4,260		4,260
Benefit payments	14,990		14,990
Repairs and maintenance	3,233		3,233
Other operating expenses	2,257		2,257
Total expenses	189,500		189,500
Operating income	100,140	2,600	102,740
NON-OPERATING REVENUES (EXPENSES)			
Interest income	5,984	472	6,456
Interest expense	(84,970)		(84,970)
Total non-operating revenue (expenses)	(78,986)	472	(78,514)
Income (loss) before operating transfers	21,154	3,072	24,226
OTHER FINANCING SOURCES (USES)			
Operating transfers in	25,000		25,000
Net income	46,154	3,072	49,226
Retained earnings - beginning of year	14,361	64,143	78,504
Retained earnings - end of year	\$ 60,515	\$ 67,215	\$ 127,730

The accompanying notes are an integral part of the financial statements.

VILLAGE OF DRYDEN

COMBINED STATEMENT OF CASH FLOWS PROPRIETARY FUND TYPE AND SIMILAR TRUST FUND TYPE For the year ended February 29, 2004

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u> Non-Expendable	<u>Total</u> (Memorandum Only)
	<u>Enterprise</u>	<u>Trust</u>	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from users and others	\$ 334,830	\$ 2,600	\$ 337,430
Cash paid to employees and vendors	<u>(97,220)</u>	<u> </u>	<u>(97,220)</u>
Net cash provided by operating activities	<u>237,610</u>	<u>2,600</u>	<u>240,210</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Operating transfers in	<u>25,000</u>	<u> </u>	<u>25,000</u>
Net cash provided by non-capital activities	<u>25,000</u>	<u> </u>	<u>25,000</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Payments on land contract	(1,455)		(1,455)
Payments on bonds payable	(125,000)		(125,000)
Proceeds from bonds payable	49,247		49,247
Interest paid	<u>(84,458)</u>	<u> </u>	<u>(84,458)</u>
Net cash used for capital and related financing activities	<u>(161,666)</u>	<u> </u>	<u>(161,666)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of assets	(49,247)		(49,247)
Interest received	<u>5,472</u>	<u>472</u>	<u>5,944</u>
Net cash provided by (used for) investing activities	<u>(43,775)</u>	<u>472</u>	<u>(43,303)</u>
 Increase in cash	 57,169	 3,072	 60,241
Cash - beginning of year	<u>303,062</u>	<u>64,143</u>	<u>367,205</u>
Cash - end of year	<u><u>\$ 360,231</u></u>	<u><u>\$ 67,215</u></u>	<u><u>\$ 427,446</u></u>

The accompanying notes are an integral part of the financial statements.

VILLAGE OF DRYDEN

COMBINED STATEMENT OF CASH FLOWS
 PROPRIETARY FUND TYPE AND SIMILAR TRUST FUND TYPE
 (continued)
 For the year ended February 29, 2004

	Proprietary Fund Type	Fiduciary Fund Type	Total (Memorandum Only)
	Enterprise	Non-Expendable Trust	
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income	\$ 100,140	\$ 2,600	\$ 102,740
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation	86,174		86,174
Deferred charge amortization	4,260		4,260
Deferred income credited to rent	(697)		(697)
Amort and issue costs	(1,846)		(1,846)
(Increase) decrease in			
Due from other funds	25,000		25,000
Accounts receivable	19,762		19,762
Increase (decrease) in			
Accounts payable	(6,529)		(6,529)
Due to other funds	11,309		
Accrued payroll	37		37
Total adjustments	137,470		137,470
Net cash provided by operating activities	\$ 237,610	\$ 2,600	\$ 240,210

VILLAGE OF DRYDEN

February 29, 2004

Notes to the Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

INTRODUCTIONS

The Village of Dryden (the Village) complies with accounting principles generally accepted in the United States of America. The Village's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements, applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARB) Opinions issued on or before November 30, 1989, except those that conflict with a GASB pronouncement. The more significant of the Village's accounting policies are described below.

FINANCIAL REPORTING ENTITY

The Village of Dryden was incorporated in 1884 and is governed under the provisions of Act 3 of 1895 of the State of Michigan. The Act provides for the operation of the Village by an elected Village Council consisting of a president and six trustees. Additionally, the Act provides for a Village Treasurer and a Village Clerk. The Village covers an area of one square mile containing a population of approximately 800 residents.

The Village provides the following services: highways and streets, public works, sanitation, cemetery operations, recreation and general administrative services.

In evaluating how to define the Village for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in accounting principles generally accepted in the United States of America, currently GASB Statement #14, *The Financial Reporting Entity*.

Based upon the application of these criteria, the general purpose financial statements of the Village contain all the funds and account groups controlled by the Village's Council of Officials as no other entity meets the criteria to be considered a blended component unit or a discretely presented component unit of the Village.

BASIS OF PRESENTATION

The accounts of the Village are recorded in separate funds and account groups, each of which is considered to be a separate accounting entity. The major fund categories and account groups are:

Governmental Funds

General Fund - The General Fund is used to account for all financial resources except those required to be accounted for in another fund. The fund includes the general operating expenditures of the Village. Revenues are derived primarily from property taxes, state distributions, grants and other governmental revenues.

VILLAGE OF DRYDEN

February 29, 2004

Notes to the Financial Statements (Continued)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources other than special assessments that are legally or contractually restricted to expenditures for specific purposes. The following funds are included:

- Downtown Development Authority
- Major Streets
- Local Streets
- Municipal Streets
- Cemetery Operating
- Garbage Collection

Fiduciary Funds

Trust and Agency Funds - Trust and Agency Funds are used to account for assets held by the Village in a trustee capacity or as an agent for individuals, private organizations, other governments or other funds. Non-expendable Trust Funds are accounted for in essentially the same manner as Proprietary Funds using the accrual method of accounting. The following fund is included:

- Cemetery Perpetual Care Fund

Proprietary Funds - The Enterprise Fund is a Proprietary Fund that reports operations that provide a service, which is financed primarily by charges made against the users of the service. The periodic measurement of net income is appropriate for capital maintenance, public policy, management control and other purposes for the Enterprise Fund. The following fund is included:

- Water & Sewer Fund

Account Groups

General Fixed Assets Account Group - This Account Group presents the fixed assets of the local unit utilized in its general operations. Fixed assets used in the general operations of the unit are recorded as expenditures when purchased and are accounted for in the General Fixed Assets Account Group. No depreciation is recorded for these general fixed assets. Infrastructure assets, including roads, bridges, sanitary sewers, drains, curbs and gutters are not capitalized.

General Long-Term Debt Account Group - This Account Group presents the balance of general obligation long-term debt of the Village.

VILLAGE OF DRYDEN

February 29, 2004

Notes to the Financial Statements (Continued)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied. The accounting of the Village conforms to accounting principles generally accepted in the United States of America as applicable to governmental units.

Governmental funds are accounted for using the flow of current financial resources measurement focus. With this measurement focus, operating statements present increases and decreases in net current assets and unreserved fund balance as a measure of available spendable resources. Governmental funds are used to account for all or most of the Village's general activities, including the collection and disbursement of earmarked resources and the servicing of long-term debt.

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. Governmental funds and Agency Funds use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e. when they are "measurable and available"). Property taxes, interest and special assessments are susceptible to accrual. Other revenues become measurable and available when cash is received by the Village and are recognized as revenue at that time. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Expenditures are recorded when the related fund liability is incurred, except interest on long-term debt, which is recorded when paid.

ASSETS, LIABILITIES AND FUND EQUITY

Deposits and Investments - The Village's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from date of acquisition. State statutes authorize the Village to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury, certificates of deposit, savings accounts, deposit accounts or depository receipts of a bank, savings and loan association or credit union which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation or National Credit Union Administration, respectively. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Village's investments are in accordance with statutory authority.

Accounts Receivable - The Village considers all account receivables to be fully collectible; accordingly, no allowance for doubtful accounts has been provided. If amounts become uncollectible, they will be charged to operations in the period of uncollectibility.

VILLAGE OF DRYDEN

February 29, 2004

Notes to the Financial Statements (Continued)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Interfund Receivables/Payables - During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "Due from other funds" or "Due to other funds" on the balance sheet.

Deferred Revenue – Deferred revenue represents the unamortized portion of a lump sum, five year lease payment made for the use of certain water system assets.

Property, Plant and Equipment – General Fixed Assets Account Groups – Property and equipment acquisitions and dispositions are accounted for as expenditures or revenues in all governmental funds. Property and equipment acquired by the Village and used in governmental fund type operations are accounted for in the General Fixed Assets Account Group. All property and equipment are valued at historical cost or estimated historical cost, if actual historical cost is not available. Donated property and equipment are valued at their estimated fair value on the date donated. No depreciation has been provided for in the General Fixed Assets Account Group.

Proprietary Fund Type - Depreciation of all fixed assets used by the Water and Sewer Fund is charged as an expense against its operations. Accumulated depreciation is reported in its balance sheet. Depreciation is computed using the straight-line method over the estimated useful life of the related asset.

The estimated useful lives of fixed assets are:

Water system	50 years
Sewer system	50 years
Buildings	20 years
Equipment	3-5 years
Vehicles	10 years

Long-Term Obligations - The Village reports long-term debt of governmental funds at face value in the General Long-Term Debt Account Group. Certain other governmental fund obligations not expected to be financed with current available financial resources are also reported in the General Long-Term Debt Account Group.

Fund Equity - The unreserved fund balances for governmental funds represent the amount available for budgeting future operations.

USE OF ESTIMATES

The process of preparing general purpose financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

VILLAGE OF DRYDEN

February 29, 2004

Notes to the Financial Statements (Continued)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

MEMORANDUM ONLY - TOTAL COLUMN

The "Total" column on the combined general purpose financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis and do not represent consolidated financial information. Data in these columns do not present the financial position or results of operations in conformity with accounting principles generally accepted in the United States of America. This data is not comparable to a consolidation because interfund eliminations have not been made in the aggregation of this data.

BUDGETS AND BUDGETARY

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General and Special Revenue Funds. All annual appropriations lapse at the fiscal year end. Each fund's appropriated budget is prepared on a detailed line-item basis. The Village does not maintain a formalized encumbrance accounting system.

The Village follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to February 29, the Village Council submits a proposed operating budget for the fiscal year commencing the following March 1. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted at the Village's annual council meeting to obtain taxpayer comments.
3. Prior to March 1, the budget is legally adopted by a Village Council Resolution pursuant to the uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires the budget to be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred unless authorized in the budget or in excess of the amount appropriated. Any expenditure in violation of the budgeting act is disclosed as an unfavorable variance on the Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (accounting principles generally accepted in the United States of America basis) - General and Special Revenue Funds.
4. The Council is authorized to transfer budgeted amounts between line-items within an activity.
5. The budget as presented, has been amended. Supplemental appropriations were made during the year with the last one approved prior to February 29.

VILLAGE OF DRYDEN

February 29, 2004

Notes to the Financial Statements (Continued)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

ENCUMBRANCES

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

ACCUMULATED UNPAID BENEFITS

There are no accumulated unpaid vacation and sick pay amounts at February 29, 2004.

NOTE 2. CASH AND EQUIVALENTS - CREDIT RISK:

Cash deposits and cash investments are carried at cost. Deposits of the Village are in the name of the Village Treasurer at one bank.

At February 29, 2004, the book value of the Village's deposits, consisting of interest bearing checking accounts, was \$1,135,507. Of the bank balances, \$100,000 was covered by Federal Depository Insurance and \$1,041,002 was uninsured.

Deposits are categorized into these three categories of credit risk:

1. Insured or collateralized with securities held by the entity or by its agent in the entity's name.
2. Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.
3. Uncollateralized.

	Fair Value			Cost
	Category			
	1	2	3	
Cash	\$ 100,000	\$ -	\$ 1,041,002	\$ 1,141,002

NOTE 3. INTERFUND RECEIVABLES AND PAYABLES:

The amount of the interfund receivables and payables are as follows:

Fund	Interfund Receivable	Fund	Interfund Payable
General	\$ 63,458	Major Street	\$ 16,644
		Local Street	4,569
		Cemetery Operating	20,936
		Water and Sewer	21,309
			<u>63,458</u>
Water and Sewer	<u>\$ 6,660</u>	General	<u>6,660</u>
Total	<u>\$ 70,118</u>	Total	<u>\$ 70,118</u>

VILLAGE OF DRYDEN

February 29, 2004

Notes to the Financial Statements (Continued)

NOTE 4. SEGMENT INFORMATION FOR ENTERPRISE FUNDS:

The Village maintains one Enterprise Fund, which provides water and sewer services. Segment information for the year ended February 29, 2004, is as follows:

	<u>Water and Sewer Fund</u>
Operating revenues	\$ 289,640
Depreciation expense	86,174
Operating income	100,140
Net income	46,154
Contributed capital	1,709,570
Fixed assets:	
Additions	49,247
Net working capital	362,805
Bonds and other long-term liabilities:	
Payable from operating revenues	1,987,511

NOTE 5. FIXED ASSETS:

A summary of changes in General Fixed Assets is as follows:

	<u>March 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>February 29, 2004</u>
Village hall	\$ 14,463			\$ 14,463
Public works garage	38,000			38,000
Storage building	1,500			1,500
Office equipment	35,898			35,898
Other equipment	131,125			131,125
Land	750			750
Community house	83,215			83,215
Vehicles	85,470			85,470
	<u>\$ 390,421</u>			<u>\$ 390,421</u>

A summary of Proprietary Fund type fixed assets at February 29, 2004 is as follows:

	<u>Water and Sewer Fund</u>
Sewer system	\$ 2,667,818
Water system	1,653,195
	<u>4,321,013</u>
Equipment	15,350
Buildings	11,795
Less: Accumulated depreciation	<u>(1,013,846)</u>
	3,334,312
Land	<u>16,700</u>
	<u>\$ 3,351,012</u>

VILLAGE OF DRYDEN

February 29, 2004

Notes to the Financial Statements (Continued)

NOTE 6. PROPRIETARY FUND LONG-TERM DEBT:

At February 29, 2004, outstanding debt consisted of the following:

County of Lapeer Waste Water Treatment System Refunding Bonds – Village of Dryden (Limited Tax General Obligation) dated March 1, 1996 for the advanced refunding of the Lapeer County Waste Treatment System Bonds, which were dated March 1, 1990. The debt is secured by a pledge of the Village's limited tax full faith and credit. Due in installments April 1, 1997 through April 1, 2014 with interest at 4.1% to 5.95%. \$ 1,145,000

Land contract executed during September 1997 with Dryden Community Schools to purchase land for the construction of a new water well. Imputed interest at 7% with quarterly payments equal to one-half of the water charge for an existing school building within the Village of Dryden. 6,004

Michigan Drinking Water Revolving Fund Loan dated September 29, 1998 for the purpose of defraying part of the cost of constructing drinking water system improvements with the Village of Dryden. The debt is secured by a pledge of the Village's limited tax full faith and credit. Due in annual installments April 1, 2000 through April 1, 2019 with interest at 2.5%. 836,507

Total long-term debt \$ 1,987,511

	Balance March 1, 2003	Additions	Reductions	Balance February 29, 2004
County of Lapeer				
Waste Water Treatment				
System Refunding Bonds	\$ 1,220,000		\$ 75,000	\$ 1,145,000
Land contract	7,459		1,455	6,004
Michigan Drinking Water				
Revolving Fund Loan	<u>837,260</u>	<u>\$ 57,680</u>	<u>58,433</u>	<u>836,507</u>
	<u>\$ 2,064,719</u>	<u>\$ 57,680</u>	<u>\$ 134,888</u>	<u>\$ 1,987,511</u>

VILLAGE OF DRYDEN**February 29, 2004****Notes to the Financial Statements (Continued)****NOTE 6. PROPRIETARY FUND LONG-TERM DEBT (Continued):**

Debt Service Requirements - The annual principal and interest requirements through maturity for all debts outstanding as of February 29, 2004:

Fiscal Year Ending	Principal	Interest	Total
2005	\$ 121,711	\$ 82,417	\$ 204,128
2006	126,834	77,367	204,201
2007	136,966	71,815	208,781
2008	135,492	65,925	201,417
2009	140,000	59,873	199,873
2010	145,000	53,408	198,408
2011	160,000	46,338	206,338
2012	165,000	38,674	203,674
2013	175,000	30,461	205,461
2014	185,000	21,625	206,625
2015	190,000	12,366	202,366
2016	55,000	6,975	61,975
2017	60,000	5,538	65,538
2018	65,000	3,975	68,975
2019	65,000	2,350	67,350
2020	61,508	769	62,277
	<u>\$1,987,511</u>	<u>\$ 579,876</u>	<u>\$ 2,567,387</u>

Interest expense for the year ended February 29, 2004 was \$84,970.

NOTE 7. PROPERTY TAXES:

Property taxes are levied and become a lien on each December 1 on the taxable assessed value listed as of the prior December 31 and are due without penalty on or before September 14 for all real and business personal property located in the Village. The taxable value of the certified roll on December 31, 2003, upon which the levy for the 2004 fiscal year was based, was \$19,948,085. Property taxes are recorded as revenue in the fiscal year beginning immediately subsequent to the tax levy date of December 1.

The tax rates assessed for the year ended February 29, 2004 to finance operations and debt per \$1,000 valuation are as follows:

Village operating	10.0433
-------------------	---------

VILLAGE OF DRYDEN

February 29, 2004

Notes to the Financial Statements (Continued)

NOTE 8. EXCESS EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS:

PA 621 of 1978, Section 18(1) as amended, provides that a local unit shall not incur expenditures in excess of the amounts appropriated.

In the body of the financial statements, the Village's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the Village for these budgetary funds were adopted at the line-item level.

During the year ended February 29, 2004, the Village incurred expenditures in excess of the amounts appropriated, as follows:

<u>Fund</u>	<u>Total Appropriations</u>	<u>Amount of Expenditure</u>	<u>Budget Variance</u>
General Fund:			
Legislative	\$ 8,000	\$ 8,898	\$ 898
General government	74,650	86,510	11,860
Public works	60,000	74,337	14,337
Special Revenue Fund:			
Public works	69,150	79,648	10,498
Operating transfer out	-	25,000	25,000

NOTE 9. PENSION PLAN:

The Village of Dryden participates in the Michigan Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system.

The plan covers substantially all eligible full-time employees of the Village. The membership at February 29, 2004, was composed of two active participants and one inactive vested member. The two active participants were fully vested. In general, all employees are eligible for normal retirement as follows:

- Age 60 with 10 or more years of service
- Age 55 with 15 or more years of service – at reduced benefits
- Age 50 with 25 or more years of service – at reduced benefits

Under the plan there is no mandatory retirement age. Normal retirement benefits are based on 2% of the Final Average Compensation (FAC) multiplied by years of credited service. The retirement allowance is reduced 1/2% of 1% for each complete month that retirement precedes the age at which full normal retirement benefits are available.

VILLAGE OF DRYDEN

February 29, 2004

Notes to the Financial Statements (Continued)

NOTE 9. PENSION PLAN (Continued):

In addition to the normal retirement provisions, the plan allows for the following retirement provisions at normal or reduced benefits:

- Deferred retirement – any age with 10 or more years of service.
- Disability retirement allowance – any age with 10 or more years of service. The service requirement is waived if the disability is from service-connected causes.
- Non-duty death allowance – any age with 10 or more years of service before retirement, a monthly survivor allowance may be payable.
- Duty connected death – no age or service requirements.

The plan elected by the Board requires a member contribution of 4% of employees' annual compensation. If a member leaves the employment of the Village or dies without a retirement allowance or other benefits payable on his/her account, his/her accumulated contributions, if any, will be refunded to him/her, if living, or to his/her designated beneficiary.

FUNDING STATUS AND PROGRESS

The amount shown in the following table as the "actuarial accrued liability" is a standardized disclosure measurement of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measurement is the actuarial present value of credited projected benefits and is intended to (i) help users assess the plan's funding status on a going-concern basis, (ii) assess progress being made in accumulating sufficient assets to pay benefits when due, and (iii) allow for comparisons among public employee retirement plans. The measurement is independent of the actuarial funding method used to determine contributions to the plan.

The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of December 31, 2003. Significant actuarial assumptions used in determining the pension benefit obligation include a rate of return on the investment of present and future assets of 8.0% per year compounded annually, projected salary increase of 4.5% per year compounded annually and 4.5% attributable to inflation.

At December 31, 2003, the unfunded (over-funded) actuarial accrued liability was \$(47,088), as determined in the following table:

VILLAGE OF DRYDEN

February 29, 2004

Notes to the Financial Statements (Continued)

NOTE 9. PENSION PLAN (Continued):

Actuarial accrued liability:

Retirees and beneficiaries currently receiving benefits	\$ 191,298
Terminated employees not yet receiving benefits	31,505
Current employees	
Accumulated employee contributions including allocated investment income	8,836
Employer financed	<u>27,215</u>
Total actuarial accrued liability	258,854
Net assets available for benefits at actuarial value (at market - \$279,358)	<u>305,942</u>
Unfunded (over-funded) actuarial accrued liability	<u>\$ (47,088)</u>

During the year ended December 31, 2003, the plan experienced a net change of \$8,512 in the over-funded actuarial accrued liability. There were no changes in actuarial assumptions during the year. The change in the actuarial accrued liability resulting from benefit changes, if any, has not been computed.

CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE

MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment for the fiscal year ended December 31, 2003 were determined using an entry age normal funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years.

The Village's contribution is based on the annual actuarial valuation. During the year ended February 29, 2004 the Village made no contributions and participants made contributions of \$1,563 to the plan.

In accordance with Statement 27 of the Governmental Accounting Standards Board, for the fiscal year beginning April 1, 2004 the annual required contribution is \$0 using an amortization factor of 0.119963 for over-funded liabilities.

VILLAGE OF DRYDEN

February 29, 2004

Notes to the Financial Statements (Continued)

NOTE 9. PENSION PLAN (Continued):

TREND INFORMATION

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Trend information for the Village of Dryden is as follows:

Analysis of Retirement System Assets and Accrued Liability

		Net Assets					Unfunded	
		Available		Unfunded			AAL as a	Employer
		For Benefits	Actuarial	(Over-funded)		Annual	Percent of	Contributions
	Active	At Actuarial	Accrued	Actuarial	Percent	Covered	Covered	as a Percent
Year	Members	Value	Liability	Liability	Funded	Payroll	Payroll	of Payroll
1993	2	129,215	133,684	4,469	97	49,952	9	6.26
1994	2	137,989	154,079	16,090	90	52,681	31	7.36
1995	2	152,619	162,176	9,557	94	54,094	19	6.72
1996	2	171,418	171,536	118	100	55,618	-	5.78
1997	3	191,134	193,857	2,723	99	69,094	4	5.34
1998	2	217,074	194,293	(22,781)	112	62,168	-	3.33
1999	2	251,811	200,756	(51,055)	125	65,234	-	1.06
2000	2	279,018	200,966	(78,052)	139	69,725	-	(2.49)
2001	2	304,068	217,801	(86,267)	140	72,378	-	-
2002	1	302,203	246,603	(55,600)	123	36,760	-	-
2003	1	305,942	258,854	(47,088)	118	45,735	-	-

Total retired life liabilities are reflected above. Actuarial assumptions were revised for the 1993, 1997 and 2000 valuations. Analysis of the dollar amounts of net assets available for benefits, actuarial accrued liability and unfunded pension benefit obligation in isolation can be misleading. Expressing the net assets available for benefits as a percentage of actuarial accrued liability provides one indication of the plan's funded status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan. The unfunded actuarial accrued liability and annual covered payroll are both affected by inflation.

NOTE 10. RISK MANAGEMENT:

The Village is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters.

The Village carries commercial insurance for risks to cover these losses. The Village also continues to carry commercial insurance for other risks of loss, including employee health and accident insurance.

VILLAGE OF DRYDEN

February 29, 2004

Notes to the Financial Statements (Continued)

NOTE 11. CONTINGENT LIABILITY:

The Village is involved in various legal actions arising in the normal course of business. In the opinion of the Village Board, such matters will not have a material effect upon the financial position of the Village.

SUPPLEMENTAL INFORMATION

VILLAGE OF DRYDEN

COMBINED BALANCE SHEET ALL SPECIAL REVENUE FUNDS February 29, 2004

	Downtown Development Authority	Major Streets	Local Streets	Municipal Streets	Cemetery Operating	Garbage Collection	Total (Memorandum Only)
ASSETS							
Cash and equivalents	\$ 315,716	\$ 100,588	\$ 29,407	\$ 34,474	\$ 24,540	\$ 19,567	\$ 524,292
Due from other governments	125,915	30,675	8,018			87	164,695
Total assets	<u>\$ 441,631</u>	<u>\$ 131,263</u>	<u>\$ 37,425</u>	<u>\$ 34,474</u>	<u>\$ 24,540</u>	<u>\$ 19,654</u>	<u>\$ 688,987</u>
LIABILITIES AND FUND BALANCES							
Liabilities							
Accounts payable		\$ 2,475				\$ 2,416	\$ 4,891
Due to other funds		16,644	\$ 4,569		\$ 20,936		42,149
Accrued payroll		291	151		307		749
Total liabilities		19,410	4,720		21,243	2,416	47,789
Fund balances - unrestricted	\$ 441,631	111,853	32,705	\$ 34,474	3,297	17,238	641,198
Total liabilities and fund equity	<u>\$ 441,631</u>	<u>\$ 131,263</u>	<u>\$ 37,425</u>	<u>\$ 34,474</u>	<u>\$ 24,540</u>	<u>\$ 19,654</u>	<u>\$ 688,987</u>

VILLAGE OF DRYDEN

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - ALL SPECIAL REVENUE FUNDS

For the year ended February 29, 2004

	Downtown Development Authority	Major Streets	Local Streets	Municipal Streets	Cemetery Operating	Garbage Collection	Total (Memorandum Only)
REVENUES							
Taxes and special assessments							
State grants	\$ 125,915	\$ 41,593	\$ 10,873			\$ 23,739	\$ 149,654
Licenses, permits, fees					\$ 2,600		52,466
Interest on investments	3,368	764	220	\$ 278	183	142	2,600
Other income		660			8,947		4,955
							9,607
Total revenue	129,283	43,017	11,093	278	11,730	23,881	219,282
EXPENDITURES							
Current							
General government	67,954				17,142		85,096
Public works		38,330	8,540	7,569		25,209	79,648
Capital outlay	4,217						4,217
Total expenditures	72,171	38,330	8,540	7,569	17,142	25,209	168,961
Excess of revenues over (under) expenditures	57,112	4,687	2,553	(7,291)	(5,412)	(1,328)	50,321
OTHER FINANCING SOURCES (USES)							
Operating transfers in							-
Operating transfers out	(25,000)						(25,000)
Total other financing sources (uses)	(25,000)						(25,000)
Excess of revenues and other sources over over (under) expenditures and other uses	32,112	4,687	2,553	(7,291)	(5,412)	(1,328)	25,321
Fund balances - beginning of year	409,519	107,166	30,152	41,765	8,709	18,566	615,877
Fund balances - end of year	\$ 441,631	\$ 111,853	\$ 32,705	\$ 34,474	\$ 3,297	\$ 17,238	\$ 641,198

VILLAGE OF DRYDEN
REPORT TO THE VILLAGE COUNCIL

February 9, 2005

Andrews Hooper & Pavlik P.L.C.
Certified Public Accountants
3201 University Drive, Suite 350
Auburn Hills, Michigan 48326



ANDREWS HOOPER & PAVLIK P.L.C.
Certified Public Accountants

Village Council
Village of Dryden
Dryden, Michigan 48074

In planning and performing our audit of the financial statements of the Village of Dryden for the year ended February 28, 2004, we considered the entity's internal control to plan our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control.

However, during our audit, we noted certain matters involving internal controls and other operational matters that are presented for your consideration. This letter does not affect our report dated December 13, 2004, on the financial statements of Village of Dryden. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve internal controls or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized as follows:

BLANK CHECKS HELD BY ACCOUNTING AGENCY

We noted during our testing that only one signature is required for Village checks regardless of the amount of the expenditure. Also, the blank check stock for Village checks is stored at the third party accounting agency.

We recommend that the Village require dual signatures for items greater than a predetermined threshold amount. This amount should be large enough to allow recurring purchases to only require one signature. This will allow routine business to continue as usual. Large purchases or services would then fall under the dual signature requirement regardless of whether or not it is a routine transaction. This control will help protect the Village from the misappropriation of assets.

CASH ALLOCATIONS

We noted during our audit that cash was not properly allocated among the funds during the year. This is a result of the Village having only one bank account for all funds.

We recommend the Village allocate cash among the funds on a monthly basis. As an alternative, the Village could obtain a separate bank account for each fund and separately record the cash activity for each fund on a monthly basis.

EXPENSE ALLOCATIONS

We noted during our audit that hospitalization and retirement expenses were not properly allocated among the funds during the year.

We recommend the Village allocate hospitalization, retirement and other employee related expenses, such as workers' compensation insurance, among the funds on a based upon the same method used to allocate payroll expenses.

GENERAL LEDGER

We noted the general ledger is not reviewed by the Village on a regular basis.

We recommend that a general ledger be obtained from the third party accounting agency on a monthly basis and be reviewed by the Village. This would assist the Village in determining the status the financial activity for all funds on a regular basis.

FIXED ASSET DEPRECIATION SOFTWARE

Currently, the Village does not have a detailed summary listing of fixed assets.

We recommend the Village purchase a software system, which would record asset description, date of purchase, cost, automatically calculate depreciation and gain or loss on the disposal of fixed assets. Tracking this information will be required when GASB No. 34 is implemented. As an alternative we could assist you by summarizing this data on depreciation software maintained by Andrews Hooper & Pavlik P.L.C.

NEW GOVERNMENTAL REPORTING MODEL

The Governmental Accounting Standards Board issued a new reporting model titled *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* in June of 1999. This standard will significantly change the future financial statement format of the Village and will be effective for the year ended February 28, 2005.

The above comments represent our observations during the course of the audit and are intended to be constructive suggestions for improvement. We would be pleased to discuss these comments with you at greater length and to assist you with any other needs, should you so desire.

Once again, we would like to thank the Treasurer and the accounting department for their support and assistance during our audit.

This report is intended solely for the information and use of the Board of Trustees, management and others within the Village and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Andrews Hooper & Pavlik P.L.C.